



Loyalty program as a profitability source

Excellence in **Retail**

Local publications for top management



Summary



Why do Loyalty Programs matter?

- > Loyalty program is an efficient tool that helps to retain and extend the customer base, thereby ensuring higher profits for retailers.
- > Implementation of the transformation program levers may increase revenues by **1-4%** and EBITDA by **5-15%**
- > Most Russian retailers still do not use many opportunities provided by loyalty programs in terms of processing important customer data and improving the marketing efficiency



How are Loyalty Programs changing?

- > Today loyalty programs are developing in four key directions:
 - **Personalization:** From high-level customer overview to Big Data analysis and unique knowledge
 - **Transformation of mechanics:** From bonuses for purchases to customized rewards for behavior
 - **Adaption of marketing mix:** From inconsistency to unified approach across all customer interaction points
 - **Efficiency:** From planning of individual effects to unified plan and additional funding for new initiatives thanks to cost reduction and operational excellence



How do retailers react?

- > Development of the plan and implementation of the loyalty management transformation comprise 4 steps: diagnostics, concept development, detailing, and implementation
- > Levers used by global retailers (e.g. Best Buy, Sephora, Victoria's Secret, and other consumer goods networks) include:
 - **Differentiation of the offers** and program tiers management
 - Development of **niche strategies** and tools by segment
 - Gamification and **non-monetary tools** for accrual and redemption of bonuses
 - Monetization of **analysis**

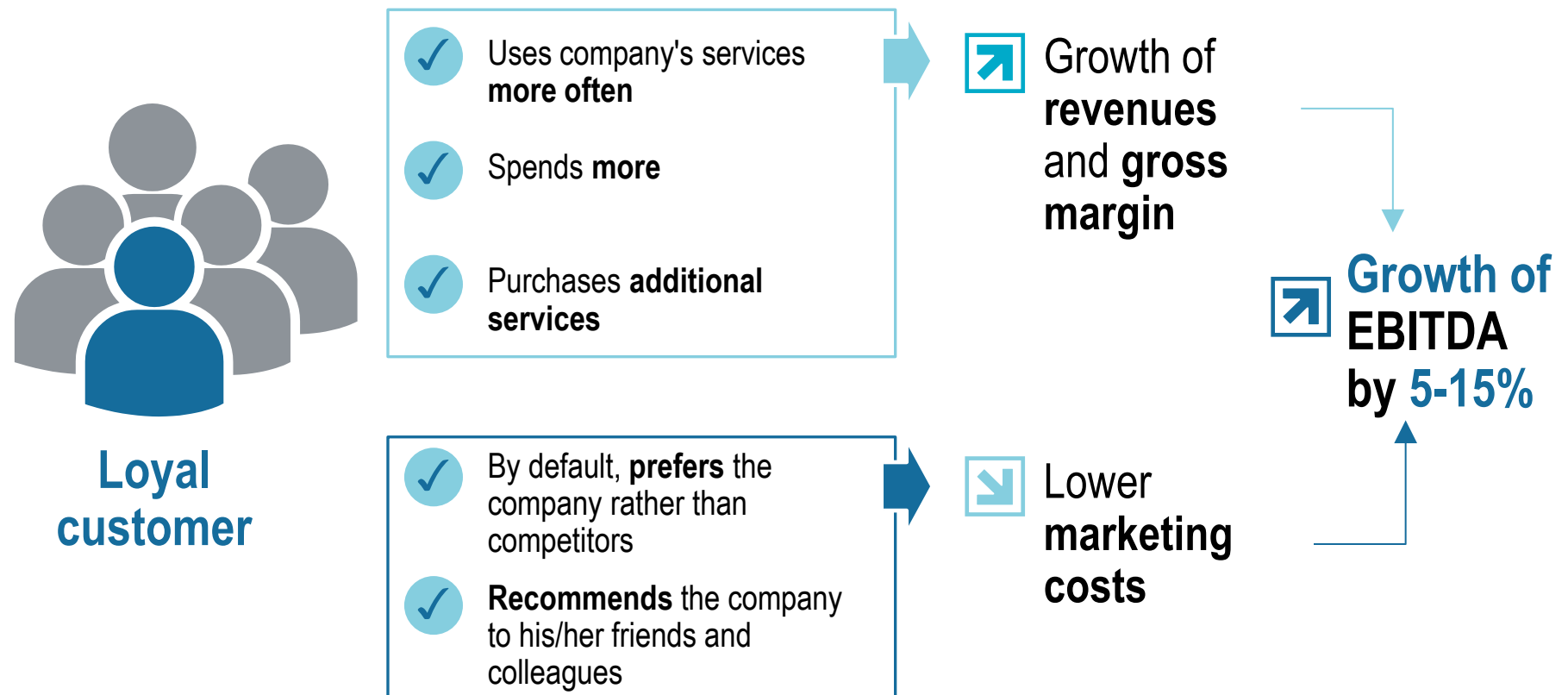
About this newsletter



"Excellence in retail" is our newsletter about strategic and operational challenges that top managers of retailers often face. "Excellence in retail" includes studies on marketing, format strategy, operational excellence, innovations, and digital transformation

Loyal customers are the cornerstone of high profits for retailers

How does loyalty influence financial performance of a company



Loyalty programs allow for more efficient retention of existing customers and attraction of the new ones

Goals of loyalty programs



Attract more loyal
customers



Retain the existing loyal
customers



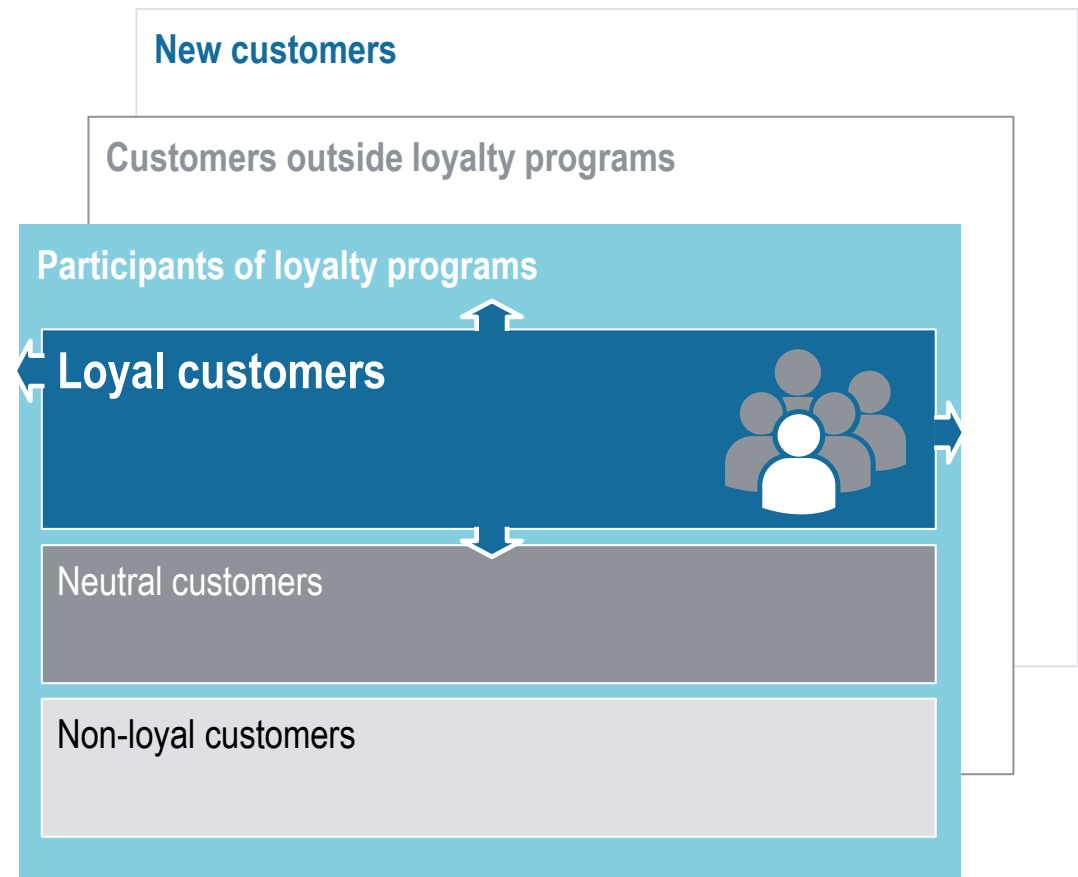
Increase the number of
transactions performed via
loyalty programs



Increase the coverage of
loyalty programs among
customers



Attract new customers



Most Russian retailers still do not use many opportunities provided by loyalty programs

Levels of loyalty management maturity



Issues typically emerge in the areas of mechanics, value proposition and data analytics

Typical issues of loyalty programs

Mechanics



Limited ROMI efficiency due to missing differentiation – enable all customers with the same benefits and incentives regardless of loyalty, shopping behavior, volume, and profitability



Low incentive to redeem bonuses – bonus rubles accrued burn without bringing value to the company

Value proposition



Limited value proposition since partnerships are underexplored – financial, co-branding, data, accrued bonuses and redemption partnerships may help to further improve effectiveness of the loyalty program



Low emotional involvement – low usage of non-monetary tools to boost engagement and the number of touch points with consumers





Data analytics



Insufficient use of data analytics – insights obtained should be used for personalized marketing or generation of additional revenue streams through data cooperation

Loyalty programs change in four directions

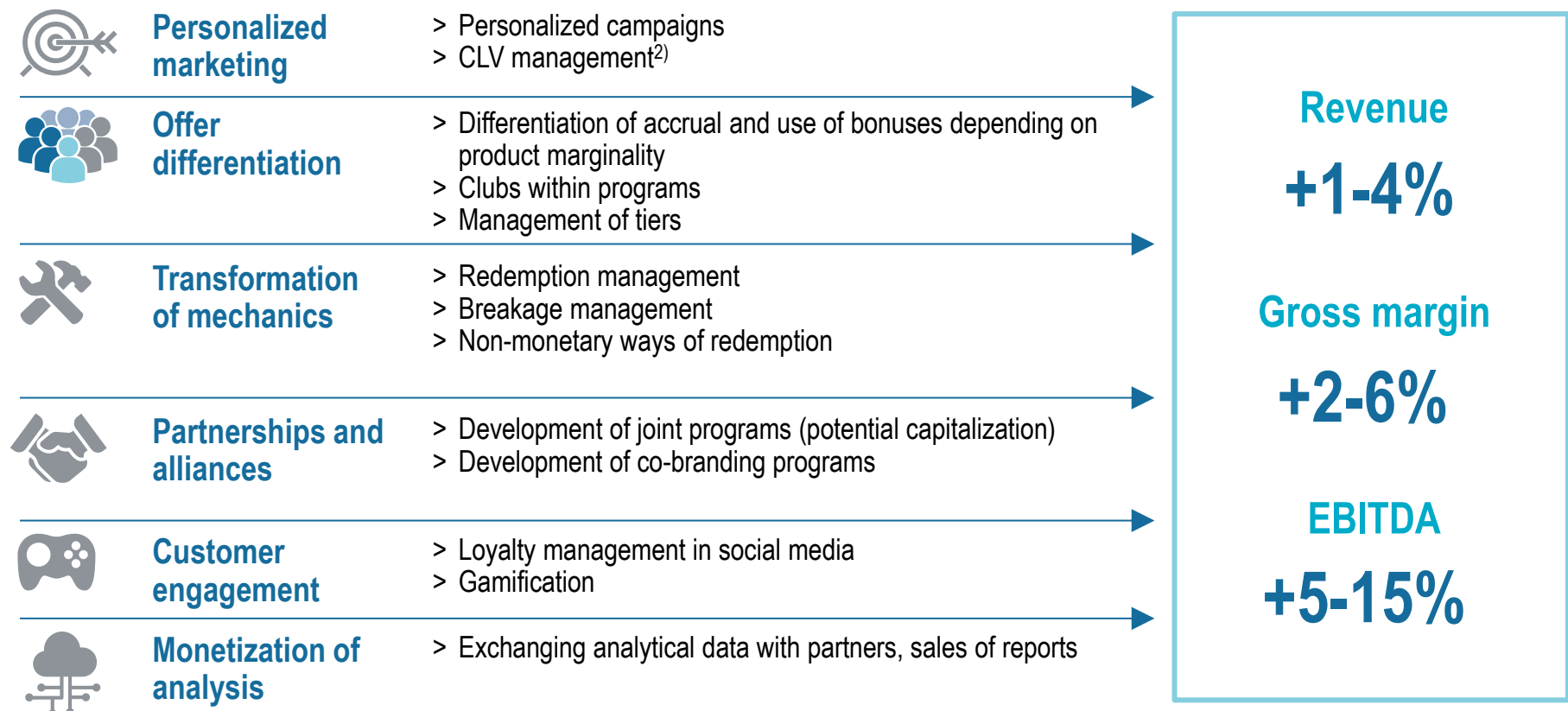
Shift in loyalty program priorities

	Before	After
 Personalization	<ul style="list-style-type: none"> > Collection and consolidation of customer data > Generalized view of the customers across regions, behaviors, gender etc. 	<ul style="list-style-type: none"> > Focus on customer insights generation based on available customer data > High share of segmentation-based/ personalized offers/promotions
 Transformation of mechanics	<ul style="list-style-type: none"> > "One-fits-all" approach > Transaction rewarding (only post-purchase) <ul style="list-style-type: none"> – Paying customer for shopping activity > Adaptive options of collection/redeeming per channel 	<ul style="list-style-type: none"> > More personalized way of collection/redeeming > Rewarding customer for loyal behavior (before and after a purchase) > Full cross-channel collection/redeeming
 Adaptation of marketing mix across all channels and CJ¹⁾	<ul style="list-style-type: none"> > Making incremental changes in single domains 	<ul style="list-style-type: none"> > Holistic integration of marketing innovations across all customer touch points
 Keeping best in class efficiency	<ul style="list-style-type: none"> > Planning of individual effects > Running current activities as usual while planning new initiatives 	<ul style="list-style-type: none"> > Holistic business case and the plan covering all gains, losses and investments > Search for potential in current activities to invest in new initiatives, and search for internal benchmarks

1) Customer journey

Implementation of the levers may increase revenues by 1-4% and EBITDA by 5-15%

Program transformation levers (selected) and their financial output¹⁾



1) Based on our project experience. These values reflect the potential of financial performance improvements based on best practices in loyalty program development

2) Customer Lifetime Value

Source: Roland Berger

For instance, management of tiers enables structured allocation of rewards

Example – Management of tiers

Description of the lever

- > Introducing multi-tier loyalty program, in which customers can gain either basic or upgraded status based on one or more criteria:
 - Transaction volume
 - Transaction value
 - Purchase of the upgraded status
- > Upgraded tier status unlocks additional benefits

Case example



- > Introducing 3 **levels of membership** (regular, Elite and Elite plus) – allowing customers to unlock additional rewards, such as extended return dates, free shipping, in-store events and promotions

REWARDS	my	elite	eliteplus
Points	1 point per \$1 spent	10% point bonus	20% point bonus
Free Shipping	Free Standard Shipping (\$35 minimum)	Free Standard Shipping, No Minimum	Free Expedited Shipping
Returns & Exchanges	Standard 15 days	30 Days	45 Days
Access to Special Sales and Offers	No	Yes, Elite Access	Yes, Elite Plus Access
Point Banking Option	No	Yes	Yes
Gift Customer Rewards Card	1,000-20,000 \$/yr	Unlocked in Elite	Unlocked in Elite Plus
How to Qualify	Points to earn	\$100 in Purchases per Calendar Year	\$200 in Purchases per Calendar Year



- > **Tiered approach (3 tiers)**
 - Beauty insider
 - VIB (once \$350 are spent in a calendar year)
 - VIB Gouge (once \$1000 are spent in a calendar year)

	Beauty Insider	VIB	VIB Rouge
Spend per calendar year	FREE	\$350	\$1000
Free birthday gift	●	●	●
Free beauty classes	●	●	●
Seasonal savings		●	●
Handpicked gifts		●	●
Free Custom Makeovers		1X	●
Flash 2-day shipping on all orders*	\$10/yr	\$10/yr	FREE
Private hotline			●
Invitations to exclusive events			●

Strategic importance



Move towards segment-driven loyalty

KPIs influenced

- > % of customers covered with benefits
- > Benefits per high value segments

Effects

- > Customers adapting behavior (or investing money) to meet criteria of upgrade
- > Allocation of benefits to high-value customers

Gamification is a raising trend to increase loyalty

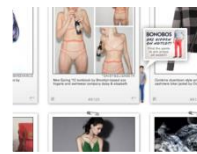
Example – Gamification

Description of the lever

- > Utilizing game mechanics and thinking to drive engagement and action (desired action)
- > Gamification is mainly introduced in 2 ways
 - Introducing gamification principle in the processes
 - Actually using game environment (app, web or other)

Case example

BONOBOS



- > Men's luxury apparel company Bonobos initiated campaign where hidden images of models dressed in Bonobos signature pants were placed throughout the NotCot and NotCouture site
- > Visitors could search the site to locate and click on the images. The first 50 people that found the images each day would receive a \$25 Bonobos credit plus free shipping. As an added bonus, visitors that were able to find a guy in paisley pants received a special code for \$100 off their purchase

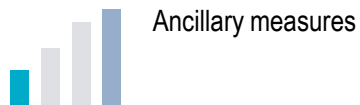


- > Best Buy has linked together email and mobile with an interactive Web-based game
- > Retailer sent out an email message thanking its loyalty members for shopping this holiday season. The email also included a link to a mobile and desktop game that encourages consumers to stay plugged into the My Best Buy loyalty program. The site plugs two calls-to-action: Play the game or learn more about the My Best Buy program
- > Best Buy became the first virtual branded retail store in *CityVille* (230 m users)



- > Subsidiary of Victoria's Secret offers in-app games, such as Pink-O to deliver exclusives, prizes and other incentives. During spring break season, Pink added an in-app scavenger hunt to target its college-aged core customers

Strategic importance



KPIs influenced

- > Online/offline traffic (e.g. from FB)
- > Likes
- > New customers

Effects

- > Up to x100 ROI per specific campaigns

Promotion strategies differentiation is an important methodology to reach retailers goals

Example – Segment based loyalty strategies (traffic, share of wallet, excitement etc.)

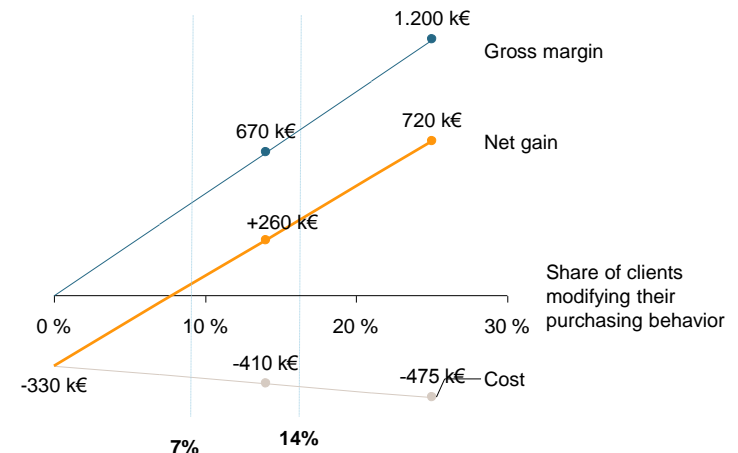
Description of the lever

- > Differentiation of promotion strategy and tactics according to segment needs
- > Planning of activities according to company goals by segment e.g.:
 - Profit building
 - Transaction building
 - Excitement creation

Case example (France, major grocery retail chain)

- > Selection of levers to increase loyalty
- > Selection of a reward, aligned with the company's values
- > Quantification of savings from reducing the promotional pressure
- > Definition of a new mix of promotional mechanics, aligned with customers' expectations and the company's positioning

Profitability of the loyalty program [k€ per store]



Strategic importance



Strategic approach to promotion activities

KPIs influenced

- > Traffic
- > Gross margin
- > Cost of promotion

Effects

- > Identification (planning) of EUR 260k gains per store from the new loyalty program

Transformation of loyalty programs comprises 4 steps

Steps of loyalty program transformation



We implemented many projects in loyalty program development

Projects on loyalty program optimization in B2C – examples

Retailers and transportation companies



Co-branding partners



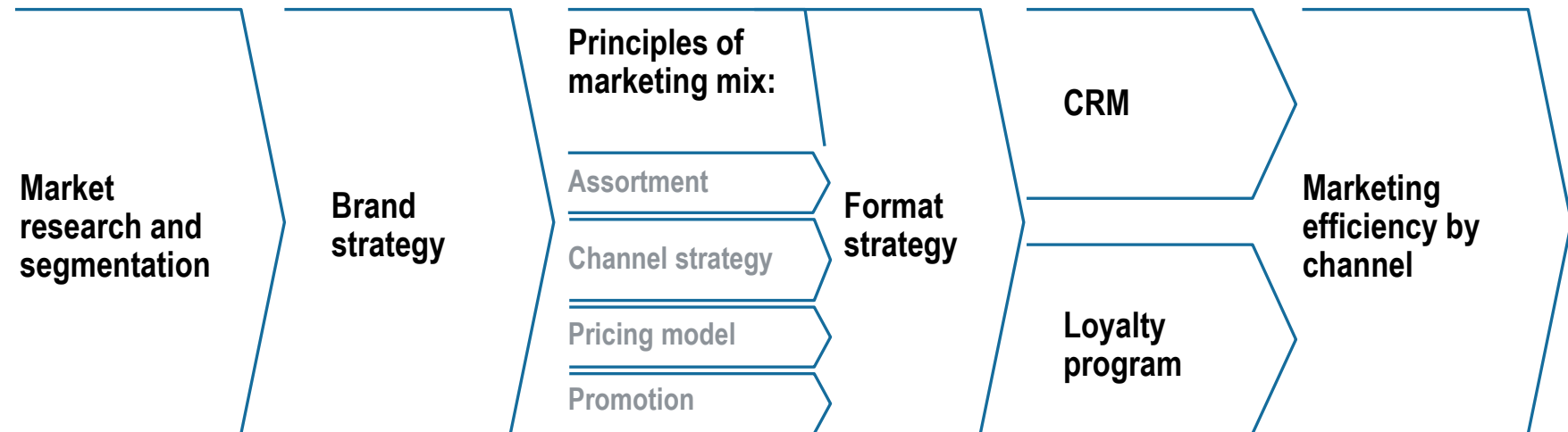
Project topics

- > Development of loyalty programs in general and for certain customer segments
- > Assessment of opportunities and feasibility of co-branding programs
- > Assessment of loyalty programs and identification of measures for making them more valuable and attractive for customers
- > Elaboration of development plans for loyalty programs in new geographies and markets
- > Benchmarking of loyalty programs in Europe

"Excellence in retail" includes a series of publications on marketing and loyalty management topics

Tools for creation of the loyal customer base

Tools for creation of the loyal customer base



Roland Berger's publications for "Excellence in retail"



Feel free to ask additional questions!



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